DEPARTMENT OF STATE

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Update: Iraq-Iran War

The War

The fighting has generally reached a stalemate. It is doubtful that either Iraq or Iran can significantly alter the military balance during the winter months, notwithstanding the strong Iranian attack currently underway. By March, weather conditions will permit more aggressive prosecution of the war, but even then it is doubtful that either side can achieve a decisive victory. Meanwhile, neither party is prepared to accept the minimum terms of the other for a cease-fire, although Iraq appears increasingly open to a solution which would leave it only marginally ahead. Restiveness over the war is growing in Iraq; in Iran, the people are suffering economic hardships, but the regime is evidently determined to continue and to step up the struggle.

Oil

The threat of panic in the world oil market has been held off, although substantial price increases (about 13%) have already occurred. However, the continuing tight oil market creates a risk of further oil price increases later in the first quarter. Turkey and Portugal have very difficult supply situations and stock levels are still falling in other IEA nations. Iraq and Iran, despite interruptions, are exporting roughly 300,000 bbd and 1 million bbd, respectively in January.

Involvement of Outside Powers

[redacted] B1,A5

Military Supply

Iraq has obtained some significant military equipment (e.g., tanks) from eastern Europe; and will obtain important supplies from France soon, including F-1 fighter aircraft.

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Iran, in part because of the sanctions imposed following the seizure of the hostages, has obtained relatively limited supplies of arms and spare parts, primarily from North Korea, Libya, and Syria.

U.S.-Iraqi Relations

The Iraqi Government has indicated to us it is relaxed over the possibility that military spare parts might be included among assets which would be unfrozen by the U.S. if the hostages were released. The Iraqis and Boeing are negotiating new arrangements for the possible sale of Boeing aircraft, with the Iraqis, however, insisting that approval of the pending export license must be obtained not later than mid-May.

Mediation Efforts

The three major initiatives to resolve the conflict--by the Islamic Conference, the Non-Aligned Movement, and the Security Council--have so far borne no fruit. Out of fear of antagonizing one of the belligerents, many nations have not put any real weight behind international efforts to contain the fighting. We continue to follow a policy of strict impartiality and to work through diplomatic channels for progress toward a ceasefire. During the immediate future, we will:

-- approach Islamic Conference participants to encourage work at the meeting scheduled for January 24 on means to end the Iraq-Iran conflict and meanwhile to support the efforts of UN special representative Palme.

[redacted] B1, B5

Following a resolution of the hostage crisis, we would want to encourage the Algerians to bring the two sides into negotiations, perhaps using the Algerian-prompted 1975 Algiers agreement between Iraq and Iran as a starting point along with its revolutionary credentials.

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